

Message Text

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ACTION EUR-12

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C O N F I D E N T I A L HELSINKI 0663

EO 11652: GDS
TAGS: EFIN, FI
SUBJECT: DEVELOPMENTS RE POSSIBLE DEVALUATION OF FINNMARK

REF: HELSINKI 0651

1. SUMMARY: BANK OF FINLAND AND GOVT NOW ENGAGED IN WORKING
OUT NEW FOREIGN EXCHANGE POLICY IN WAKE OF SWEDISH
CROWN DEVALUATION. FINNISH FOREIGN EXCHANGE MARKETS ARE
CLOSED AT LEAST UNTIL 12 NOON APRIL 5. SENIOR BANK OF
FINLAND OFFICIAL HAS TOLD AMBASSADOR IN STRICT CONFIDENCE
THAT BANK OF FINLAND RECOMMENDS DEVALUATION OF GENERAL
MAGNITUDE OF SWEDISH DEVALUATION AND INDICATED HE FORESEES
GOVERNMENT APPROVAL TODAY. OTHER INDICATIONS ARE THAT
GOVERNMENT WILL DECIDE NO EARLIER THAN TOMORROW. SOME
DEVALUATION GENERALLY EXPECTED, BUT ESTIMATES OF SIZE VARY
WILDLY. END SUMMARY.

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2. FINLAND'S FOREIGN EXCHANGE MARKETS WILL REMAIN CLOSED
AT LEAST UNTIL 12 NOON APRIL 5. PREDOMINANT VIEW AMONG
BANKERS IS THAT DECISION ON DEVALUATION NOT LIKELY IMMEDI-
ATELY AND THAT BANK OF FINLAND WILL KEEP FOREIGN EXCHANGE
MARKETS CLOSED UNTIL AFTER EASTER VACATION. THIS WOULD
GIVE BANK OFFICIALS TIME TO ASSESS LEVEL OF SWEDISH CROWN
IN INTERNATIONAL MARKETS AND TO CONTINUE CONSULTATIONS

UNDER WAY TODAY WITH MAJOR ECONOMIC GROUPS IN FINLAND. MIKA TIIVOLA, PRES OF SECOND LARGEST COMMERCIAL BANK, HAS EXPRESSED PUBLICLY HOPE THAT BANK OF FINLAND WILL MAKE QUICK DECISION. FINLAND NEEDS ABOUT FMK 300 MILLION OF FOREIGN EXCHANGE FOR NORMAL BUSINESS DAY AND CLOSURE OF FOREIGN EXCHANGE MARKET FOR MORE THAN WEEK COULD SEVERELY INTERRUPT FOREIGN TRADE. FINNISH TRAVELERS CAN GET FOREIGN EXCHANGE, BUT WILL HAVE TO PAY DIFFERENCE BETWEEN OLD EXCHANGE RATE AND NEW EXCHANGE RATE ONCE BANK OF FINLAND MAKES NEW QUOTATION FOR FINNMARK. BOARD OF CUSTOMS HAS ANNOUNCED THAT ALL IMPORTS AS OF APRIL 4 WILL BE VALUED AT RATE QUOTED ON FIRST DAY EXCHANGE MARKETS ARE OPENED. REPRESENTATIVES FROM LABOR (SAK) AND BUSINESS (STK) HAVE BEGUN INFORMAL NEGOTIATIONS ON HOW THE LIKELY DEVALUATION WILL AFFECT WAGE AGREEMENTS MADE UNDER GUIDELINES SET OUT IN LIINAMAA PROPOSALS.

3. PRIMIN MARTTI MIETTUNEN TOLD EMBOFF AT EMBASSY RECEPTION THAT DEVALUATION DECISION WILL NOT BE MADE TODAY. HE SAID THAT BANK OF FINLAND CONTINUES NEGOTIATIONS WITH ECONOMIC INTEREST GROUPS AND THAT BOARD OF MANAGEMENT OF BANK OF FINLAND WILL MEET AT 4 P.M. TO PREPARE PRELIMINARY POSITION FOR GOVT CONSIDERATION AFTER WHICH BANK OF FINLAND OFFICIALS WILL MEET GOVT LEADERS IN LATE EVENING TO CONSIDER ALTERNATIVE COURSES FOR FINLAND AND TO REVIEW REACTION OF FOREIGN EXCHANGE MARKETS TO SWEDISH CROWN DEVALUATION. PRIMIN SAID TUESDAY IS EARLIEST POSSIBLE DATE FOR DEVALUATION DECISION AND FINNISH FOREIGN EXCHANGE MARKETS WILL REMAIN CLOSED UNTIL GOVT AND BANK OF FINLAND TAKE FINAL CONFIDENTIAL

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POSITION ON DEVALUATION QUESTION. ALTHOUGH DEVALUATION OF SWEDISH CROWN CAME AS COMPLETE SURPRISE TO GOVT, PRIMIN MENTIONED THAT DIRECTOR OF SWEDISH CENTRAL BANK TALKED EARLIER WITH BANK OF FINLAND GOVERNOR, MAUNO KOIVISTO, ABOUT LIKELIHOOD OF CROWN DEVALUATION, BUT GAVE NO INDICATION OF WHEN OR HOW MUCH SWEDES PLANNED TO DEVALUE THEIR CURRENCY.

4. SENIOR BANK OF FINLAND OFFICIAL INDICATED TO AMBASSADOR IN STRICT CONFIDENCE THAT BANK OF FINLAND WOULD RECOMMEND TODAY DEVALUATION OF GENERAL MAGNITUDE OF SWEDISH DEVALUATION. BANK OFFICIAL FURTHER INDICATED THAT GOVT WOULD APPROVE BANK OF FINLAND RECOMMENDATION TONIGHT.

5. BANK OF FINLAND HAS ANNOUNCED PUBLICLY THAT ITS DECISION REGARDING FINNMARK DEVALUATION MUST SATISFY TWO CRITERIA: (A) THAT IT PROVIDE A CREDIBLE, DURABLE SOLUTION; (B) THAT IT HELP SETTLE LABOR UNREST.

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